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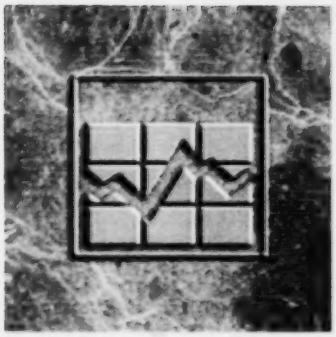
Part B - Income and Wealth Content



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CONTENT OF THE SURVEY OF LABOUR AND INCOME DYNAMICS PART B - INCOME AND WEALTH CONTENT

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The SLID Research Paper Series is intended to document detailed studies and important decisions for the Survey of Labour and Income Dynamics. These research papers are available in English and French, at no charge. To obtain a summary description of available documents or to obtain a copy of any, please contact Philip Giles, Manager, SLID Research Paper Series, by mail at 11-D8 Jean Talon Building, Statistics Canada, Ottawa, Ontario, CANADA K1A 0T6, by telephone (613) 951-2891, or by fax (613) 951-3253.

EXECUTIVE SUMMARY

Starting in 1994, the Survey of Labour and Income Dynamics (SLID) will follow individuals and families for at least six years, tracking their labour market experiences, changes in income and family circumstances. An initial proposal for the content of SLID, entitled "Content of the Survey of Labour and Income Dynamics : Discussion Paper", was distributed in February 1992.

That paper served as a background document for consultation with and a review by interested users. The content underwent significant change during this process. Based upon the revised content, a large-scale test of SLID will be conducted in February and May 1993.

The present document outlines the income and wealth content to be tested in May 1993. This document is really a continuation of SLID Research Paper Series 92-01A, which outlines the demographic and labour content used in the January / February 1993 test.

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1. INTRODUCTION

In 1994, Statistics Canada will introduce a large-scale household panel survey. The Survey of Labour and Income Dynamics (SLID) will follow individuals and families for at least six years, tracking their labour market experiences, changes in income and family circumstances. A preliminary version of the content of SLID was released in an earlier document entitled "Content of the Survey of Labour and Income Dynamics : Discussion Paper." That paper served as a background document for a review of the content by interested users. For the income and wealth data, the feedback process and the results are described in section 4. The content underwent significant change during this process.

This document outlines the content as it stands entering the final large-scale test of SLID which will take place in January/February and May 1993. It is the content on which the programming for the CAI (computer-assisted interviewing) application will be based. Changes may still result from future tests.

2. GENERAL OVERVIEW

The idea of the economic well-being of a family or individual is central to the objectives of SLID. This can refer both to the economic well-being at a point in time (say 1992), or to the change in that economic well-being through time. The latter is often associated with other events such as change in family or labour market status. But how does one conceptualize and measure the economic well-being of a family? Is it the income received during a year? Is it the pattern of expenditures the family makes during a year? Or is it the wealth which has been accumulated through many years?

The focus of SLID is on the access to economic resources by a micro-unit (family, household or individual). It is this focus on microdata that is the strength of

longitudinal surveys, and their power rests in the analysis that can be done at the micro-level.

This is quite different from the production of aggregate data for, say, the National Accounts. In this case, the income and expenditure concepts must match those used in national accounting, and the focus is solely on aggregate measures in the cross-section. This focus affects the data to be collected, the concepts used, and the way in which variables are measured.

3. THE INTER-RELATIONSHIP AMONG INCOME, EXPENDITURES AND WEALTH

Since SLID is a longitudinal survey, consider a hypothetical life history of an individual. Once over the age of 15 or so, a person may be in receipt of economic resources (income) from a number of different sources: earnings, investment income, government transfers and lump-sum receipts (inheritances, gifts, insurance payments, etc). This person then pays direct taxes on some of these sources, and can dispose of the remaining resources in one of three ways: use them for personal expenditures, add to his/her stock of wealth (or savings), or transfer them to others (gifts, alimony, etc).

TABLE 1
Flows (Income & Expenditures)

1.	Money Income Flows	Wages & Salaries
		Self-employed Income
		Investment Income
		Transfers from Government Sources
		Tax Credits
		Pension Income
		Alimony
		Inheritances (of financial assets) and other lump sums (received)
		Less Taxes Paid
2.	Expenditure Flows	Less Expenditures
3.	Capital Transfer to Others	Less alimony, gifts, bequests
4.	Savings	Equals money savings
		plus inheritances, gifts (of tangible assets)
		plus capital gains on tangible assets (not realized)
		Equals TOTAL SAVINGS (or DISSAVINGS, if negative)

Viewed in this way, income over a given year is the value of rights that a person might have exercised in consumption without altering the value of their wealth. That is, it is the potential spending power during a given period, holding wealth constant. This links income, expenditures and wealth. The first two are flows into and out of a stock of wealth. Wealth is increased by converting income to savings

TABLE 2
Stock (Wealth)

Year 1 Net Wealth		Year 2 Net Wealth
Financial Assets		Financial Assets
Housing, other tangible assets	TOTAL	Housing, other tangible assets
	+ =	
Equity in Business (net)	SAVINGS	Equity in Business
Household debt (negative)		Household Debt
Mortgage debt (negative)		Mortgage Debt
Value of Pension		Value of Pension

(in any form), and decreased by dissavings. Expenditures represent the actual consumption, and the difference between expenditures (plus capital transfers) and income is savings (or dissavings). It is the savings component that links the income and expenditure flows and the stock of wealth (see Tables 1 and 2).

Such a definition of income (from economists such as Atkinson, Simons, and others) is very broad. It includes all potential spending power that does not alter wealth. Thus, it includes capital gains, and strictly speaking should include imputed rent on ownership of major assets (mainly homes), fringe benefits (pensions, medical care payments), etc., although those are not shown in the above diagram as income[1]. If one truly wanted to account for the potential spending power (without altering wealth) over a year, these items should be included.

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[1] Some of these are accounted for in expenditures, such as rent actually paid.

Similarly, when measuring inequality of access to economic resources and determining whether a family is poor (i.e., has relatively little access to economic resources), all of these should be included.

But statistical systems are often imperfect for a variety of valid reasons. Traditional "income" measures in Statistics Canada have focused on money income: wages and salaries, investment income, transfers from government pension income, etc. Typically excluded are some forms of money income such as inheritances, unrealized capital gains and losses, the value of fringe benefits, income in kind, etc. While such omissions will obviously have some impact on studies of inequality, such data have been unavailable due to measurement difficulties, or because they represent infrequent events which have little impact on the aggregate cross-sectional income distribution (e.g., lump-sum payments such as insurance).

Expenditures and wealth are measured infrequently because these are difficult items to measure. (Statistics Canada measures family expenditures every four years, and wealth on an irregular basis -- most recently in 1984.) Thus, many of the components of the accounting framework outlined earlier are missing in the current statistical system. Many will remain so due to inherent difficulties.

4. FEEDBACK ON THE EARLIER CONTENT DOCUMENT

A content document was written and released in February 1992. The document provided the basis for the discussion of the proposed content for SLID. The results of the consultation process with respect to the demographic and labour content are detailed in SLID Research Paper 92-01A. The present document describes the main feedback received on the income and wealth content.

4.1 The Suggestions

(a) Income from taxable income sources should be collected separately from non-taxable sources (GIS, social assistance).

(b) Data on RRSPs and RRIFs should be collected separately.

(c) Pension income should be collected by source, and a breakdown of CPP/QPP benefits into retirement, disability and survivor benefits is important for policy analysis.

(d) Child support and alimony income should be collected separately. Should not attempt to collect non-cash income.

(e) Data on savings (pension contributions, RRSPs, change in savings accounts) should be collected, and sources that are subject to different tax treatments should be collected separately. Also be careful not to double-count income longitudinally (e.g. in RRSP, and then income from RRSP-based annuities).

(f) Micro-level comparisons of the SLID and tax data should be made for particular income components, and the users informed of the results.

(g) Some believe wealth data do not have to be collected annually; every second or third year is sufficient. Others believe annual data would provide estimates of net change in savings and accrued capital gains.

(h) Inheritances are an increasing share of wealth and should be collected separately.

(i) Collect information on some basic expenditures, such as rent or mortgage payments, and possibly other large items such as vehicles, vacations, etc.

4.2 The Actions

Most of these suggestions will be followed, although some of the detail requested may not be produced to keep this segment to a minimum. Time and space are not available to collect any expenditure data. The objective is not to carry out a detailed wealth survey but to obtain sufficient information to determine the impact of wealth on labour market events and income.

To minimize non-response and increase accuracy, a questionnaire will be mailed to households prior to the telephone interview on income and wealth to allow respondents time to obtain the necessary information. In the future, respondents might be given a choice of answering the income questions, or of authorizing Statistics Canada to take their data directly from tax files. However, this would not eliminate the need to contact the respondents, as not all the required information can be found on the tax form.

The most difficult section of the wealth component relates to pensions. There are three possible goals for the pension section: (1) obtain better data on pension coverage, (2) obtain better data on depth of coverage (i.e. how long contributed to plan and what amount), and (3) determine the current value of the pension as one component of wealth. Questions will be asked to cover objectives (1) and (2), and an attempt will be made to approximate (3) by collecting the information necessary to link to the Canada Pensions Plans data base. However, objective (3) requires a number of assumptions regarding interest rates, life expectancy, and possibly the details of particular plans, as well as an adequate record linkage.

5. INCOME CONTENT

5.1 Income concepts and collection of survey data

Clearly the broader the definition of income, the better -- assuming it can be reliably measured. For most low and middle class earners, income will primarily take the form of wages and salaries and transfers. For higher income individuals, investment income and capital gains become more important. Due to difficulties in current approaches to measuring non-cash income and investment income, different segments of the income distribution are affected in different ways. For example, the difficulty in measuring capital gains affects the data for the high income population. Difficulties in measuring transfer payments (UI and social assistance) affects the low income population. Thus, income inequality or concentration studies are clearly affected by omissions and measurement problems, and these shortcomings do not affect all segments of the income distribution equally. Any steps to decrease the measurement shortcomings, and broaden the definition of income will obviously improve the analysis. The collection of wealth data (which will generate some income flows data) may help.

Another possible method of reducing measurement error in SLID data is to move towards greater use of the T1 income tax form. Encouraging respondents to use the T1 as a source of information when completing the survey may improve the quality of the responses. This is being tested in the May 1993 test. To achieve this, the income segment of SLID has to be aligned with the T1 income tax form. This presents some difficulties in forms design and in the definitions used for the income concepts. More details on the direct reference to the income tax form and on the May 1993 test can be found in SLID Research Papers 93-01, "The Use of Income Tax Data for SLID", and 93-04, "Questionnaire for May 1993 Test".

In the end, SLID will have a focus on "money income" similar to that taken in the Survey of Consumer Finances (SCF). However, wealth data from successive waves could be combined by researchers with money income flows to produce the broader definition preferred by economists. This is particularly true if the "feedback" facility of CAI is used to focus on change in the components of wealth (which in a broader definition are, in fact, income flows). Still missing -- and unlikely to be collected -- would be items such as in-kind income and fringe benefits. The respondents are simply unable to report these in any reliable manner. Thus, SLID income data would reflect the basic "money income" concept as in the SCF, but there might be an opportunity to broaden the concept for specific analyses by use of some change in savings components from the wealth data.

In some places the definitions of specific income items have been altered slightly from those used in the SCF in order to accommodate the transcription directly from the T1 form (e.g., definition of wages and salaries before deductions). More details on the use of income tax data for SLID are available in SLID Research Paper 93-01 "The Use of Income Tax Data for SLID".

The second of the three major components of economic well-being is expenditures. While income provides a measure of the potential access to economic resources during a year, expenditures provide a measure of the realized use of economic resources. The use of the potential spending power of income may be deferred through savings (increases in wealth), or spending power in any given year may be augmented by decreasing wealth. It could be argued that expenditures are a better measure of realized economic well-being during a fixed time period (a year) because of this ability to spread the use of economic resources over a number of years. Thus, inequality in expenditures is likely to be less than inequality in incomes, because of the "smoothing" possible in expenditures.

As well, if one measures all three components (income, expenditures and wealth), it is possible to develop checks on data quality. For example, as demonstrated in the earlier diagram, one could derive two estimates of savings -- one from the income and expenditure data and one from the wealth data -- and determine the statistical discrepancy.

For the purposes of SLID, however, budget and response burden constraints make this infeasible. To reasonably measure expenditures requires a very large number of detailed questions, far beyond the capacity of SLID. However, extensive information on income and some information on wealth can provide useful indicators of the economic position of the individual or family, and how it changes with time. Knowledge of the sources of one's income and wealth, and the potential access to economic resources, is probably more useful in an analysis of the well-being than knowledge of how a family chooses to utilize that economic power (through expenditures). For these reasons, data on expenditures will not be collected in SLID.

5.2 Data Items

Income items will be collected each May using the previous calendar year as the reference period.

Employment income

- Wages and salaries
- Net self-employment earnings
  - Business income
  - Professional income
  - Commission income

- Farm income
- Fishing income

- Other employment income (tips, gratuities, wage-loss replacement programs, director's fees, royalties from work or inventions, payments from research grants)

Government income

- Canada or Quebec Pension Plan benefits - amount and type
- Old Age Security benefits including GIS and SPA
- Veterans Affairs pensions (veteran and civil)
- Unemployment Insurance benefits - amount and type
- Workers' Compensation benefits
- Federal Family Allowances
- Quebec Family Allowance, Newborn and Maternity allowances
- Social assistance and Provincial income supplements
- GST (Goods and Services Tax) Credit
- Child Tax Credit
- Provincial tax credits
- Other income from government sources

Investment income

- Interest from bank deposits, bonds (including Canada Savings Bonds), and investment certificates (except RRSPs and RRIFs)
- Dividends from Canadian sources
- Net partnership income: limited or non-active partners only
- Capital Gains
  - Net capital gains or losses

- Taxable capital gains
- Net rental income
- Other investment income (except retirement income such as RRSPs and RRIFs)

Pension income

- Employment pension or superannuation, including survivors' pensions
- Income from Registered Retirement Income Funds (RRIFs)
- Income from annuities, including RRSP-eligible annuities and Deferred Profit-Sharing Plans (DPSPs)

Other income

- Money from RRSP withdrawals before withholding tax
- Alimony or separation allowance and child support RECEIVED - amount and type
- Money received from persons living in other households to help with such things as living expenses, mortgage or rent payments, tuition, car payments
- Inheritances, including value of any inherited property, goods, savings bonds, stocks, etc.
- Lump sum income from life insurance, death benefits, lottery winnings, severance pay, retirement allowances, etc.
- Other income not already specified

Totals and Taxes

- Total income
- Total income tax paid (federal and provincial)

6. WEALTH CONTENT

6.1 Goals

A knowledge of wealth, and the change in wealth, of a family or individual, is of importance for a number of reasons. First, as noted earlier, changes in wealth (capital gains, inheritances, etc.) are really income flows that alter the family's, or individual's, command over economic resources. Knowledge of wealth, and changes in wealth, leads to a much broader and more accurate view of the distribution of economic well-being in society than knowledge of money income. Thus, obtaining an understanding of the distribution of wealth, and how it changes at a family level, is important in understanding the access to economic resources in a society.

Second, virtually nothing is known regarding the dynamics of wealth for most segments of the population. How quickly is wealth acquired (or lost) in a family? In virtually every other area of analysis (income and poverty dynamics, firm dynamics, dynamics of farming), when longitudinal data became available it was found that there was much more volatility in the process than was believed from examining only cross-sectional data. Even though most of these data pertain to other countries, this result is most likely to be the case in wealth dynamics in Canada as well. The causes of such volatility in wealth (if it is observed) could be determined because of the knowledge of labour market, income, and family composition dynamics that is available in SLID. The interaction of wealth with labour market and family dynamics is an area which has largely been untouched, due to lack of data.

Third, in policy development there are many issues where data on which to base informed debate are lacking. Such issues include the inter-generational transfer of

wealth, whether excessive concentration of wealth should be avoided and how, what impact programs such as RRSPs have on the generation of wealth and who holds it, changes in the holdings of wealth (at a family level) through time, among others. A longitudinal survey would provide input to these debates.

Fourth, in the academic community, models such as the "life-cycle savings model" have been developed. There is considerable debate regarding such theories, and the availability of longitudinal wealth and income data would provide a basis for the testing and development of such theories.

6.2. Quality issues as they affect the use of wealth data

6.2.1 Sample Design

The SLID sample is selected from the LFS sample; thus, from an area frame. No attempt is made to "oversample" wealth households. Previous wealth studies have shown that a large proportion of total personal wealth is held by a small number of individuals who are geographically clustered. Therefore, it is not likely that the SLID sample will contain many individuals who are extremely wealthy. (The 1984 SIPP captured 16 "extremely-wealthy" households and the 1984 wealth supplement to PSID found 11.) The result is that estimates of aggregate personal wealth in the economy will have a high sampling error. Without a supplementary sample of high-wealth persons, obtaining reliable measures of wealth among the very wealthy, and hence of total wealth, will not be possible. At this time, there are no plans to incorporate such a supplementary sample. However, some components of wealth which are not concentrated among the very wealthy families will be reliably measured.

6.2.2 Response rates and non-response bias

Questions on financial status, such as income and wealth, may be seen as too sensitive by some respondents, and high non-response may result. However, non-response is not a severe problem if respondents are "representative" of the total population. Unfortunately, past wealth surveys have experienced very low response rates from those respondents in the "high-wealth" group. (The wealth supplement to the 1984 SCF had a 45% response rate for the "high-wealth" group.) The effect is to bias the survey estimates. This is a further impediment to reliably estimating aggregate wealth. Additionally, many in the "high-wealth" group who do respond, may underestimate their wealth holdings -- another source of bias.

6.2.3 Underreporting of wealth components

Underreporting is expected to be a problem for certain types of assets. For example, some respondents may forget money held in an infrequently-used bank account or savings bond accruals. However, tangible assets, such as the family home and automobile, are distinctive and less likely to be forgotten or misclassified for the survey. It is believed that most respondents will be able to reliably estimate the market value of their tangible asset holdings. Therefore, estimates of total wealth for those households with the major portion of their wealth in tangible assets should be reliable. It is believed that most Canadian households fall into this category.

6.2.4 Uses of wealth data

SLID is not primarily a wealth survey. For the reasons outlined above, data on total wealth from SLID will have a number of shortcomings (primarily because of

underreporting among the very wealthy families). For most families, however, the wealth data will be of reasonable quality. It is the use at the family level that is the primary goal for SLID. The total family wealth is a characteristic which can help explain labour market or income behaviour. This focus can be demonstrated by the following examples of the uses of wealth data:

1. Distributional analysis: concentration of wealth
2. Intergenerational wealth mobility
3. Asset accumulation in families
4. Savings and dissavings behaviour (life cycle model)
5. Wealth and:
    - ! Labour supply
    - ! Adequacy of pensions
    - ! Changing family status
    - ! Retirement
6. Housing affordability studies (savings behaviour)

Items 1 and 2 require reliable, aggregate wealth data, and will not be possible using SLID data. Some studies related to items 3 and 4 will be possible. Items 5 and 6 will be quite appropriate with wealth data from SLID, because of the focus on middle or low income families (the majority of all families), and total wealth will be used as an explanatory variable.

6.2.5 Are annual wealth data required?

As mentioned, the primary objective of collecting wealth data is to relate large changes (both increases and decreases) in wealth to other events. The frequency of collection involves a trade-off between:

(a) the desire for year-to-year changes in some components of wealth;

(b) the fact that aggregate wealth does not change significantly in a short period of time;

(c) the reduced impact of spurious change ("noise") if data are collected less frequently.

The balance to be reached is to collect the data frequently enough that recall problems are not great and with a large enough time gap to minimize the effect of "noise" on the data. As always, budgetary considerations will play a part. One possibility being currently considered is to collect wealth data three times during the six years that a respondent is in the sample, in years 1, 3, 6.

Information will be requested on a wide range of items. The value of some of these (e.g., the value of the home) will be quite stable. Others (e.g., the value of stocks) may be less stable. Therefore, another possibility is that the frequency of collection would be considered independently for each item. An imputed value could be determined for those which are collected less frequently than annually -- this would result in output files which have annual wealth data.

6.2.6 Pension data

The collection of pension data appears to be the most problematic of all the wealth data. Many people do not understand their company's pension plan and what their benefits are likely to be. Even if some basic responses were accurately provided, it is difficult to assign the current monetary value to an individual's pension plan.

However, these data have great analytic value for SLID as the value of an individual's pension will undoubtedly affect the level of savings, contributions to RRSPs and decisions related to retirement.

Items on the T1 Income Tax form could be useful to the survey. First, Revenue Canada, Taxation now provides each taxpayer with a "Pension Adjustment (PA)", which can be used to determine the person's maximum allowable RRSP contribution for that year. Another item reported on the income tax form is the amount deposited into the company pension plan -- this is a tax deduction and therefore is probably well-completed. The Revenue Canada Registration Number for the pension plan is listed on the T4 Information Slip. The collection of this number would allow linkage to a data base on Registered Pension Plans, allowing a valuation of the current value of a person's RPP, which could be included in an aggregate wealth measure.

6.3 Data Items

As opposed to income data which cover a period of time, wealth data must be collected for a particular point in time. While it would be desirable to collect the wealth data as of the previous December 31, this causes many difficulties for respondents. Therefore, with a few exceptions, no reference date will be provided to respondents. The result will be a mixture of reference dates, depending on how the respondent chooses to respond. If financial documents are used, the reference date for SLID will be the reference date of the documents, which may differ for various types of documents. If the respondent answers without using any financial documents, response errors will likely be greater than errors due to the choice of reference date.

Data will be collected for each individual. In some cases, such as for married couples, this may be difficult due to joint holdings. However, as long as the value of a particular asset is only reported once, either completely by one person or split among the two joint owners, the impact on the analysis of SLID will be minimal, since family aggregate wealth is considered to be of primary interest.

Tangible assets

- If owned, current value of home
  - Amount owing on mortgages
- Real estate, other than own home
  - Amount owing on mortgages
- Current value of vehicles - cars, trucks, vans, motorcycles
- Current value of boats, motor homes, trailers, snowmobiles and other recreational vehicles

Financial assets

- Total value of all bank accounts, guaranteed investment certificates and other savings (but excluding RRSPs and RRIFs)
- Value of any money OWED to respondent, such as loans and mortgages held by respondent
- Total value of all Individual RRSPs
- Total value of all money in Group RRSPs sponsored by employer
- Total value of all RRIFs
- Total value of all annuities (not already specified)
- Total value of Canada Savings Bonds, treasury bills, other government bonds (not including RRSPs and RRIFs)
- Total value of mutual funds, corporate stocks and bonds (not including RRSPs and RRIFs)

Other Assets

- Other major assets not already included, such as money kept at home, assets held in trust, rights to an estate, RESPs

Personal debt (other than mortgages)

- Money owed on credit cards, charge accounts, other consumer credit
- Student loans
- Personal loans with financial institutions, auto manufacturers, persons outside the household, lines of credit

Equity in a business

- Total value of equity in a business (i.e., the current market value less all debts and mortgages currently owing)

Pension data

- Pension Adjustment (PA) amount for previous calendar year
- Revenue Canada Pension Plan Registration Number(s)
- Contributions to plan for previous calendar year

The pension items can be taken from income tax forms, but will be very difficult for those who do not have their income tax form. Also, it should be recognized that this content will not yield data on all registered pension plans for all individuals. Evaluation of the collected data and of the uses of the data may lead to additional data items on pensions and/or refinements to this content.